

May 10, 1997

TO: Senator Snyder, Chair
Senator McDonald
Representative Dunshee
Representative Thomas
Fred Kiga, Director, DOR
Dick Thompson, Director, OFM

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: May 10, 1997 REVENUE COLLECTION REPORT

A combination of a strong economy and special factors resulted in General Fund-State collections exceeding the estimate in the April 11 - May 10 collection period by \$27.9 million. Cumulatively, for the two months since the March forecast collections are \$60.8 million higher than expected. Nearly all of this month's variance and more than two-thirds of the cumulative variance, however, is due to special factors. These include two extraordinarily large payments: an audit payment of \$22 million received this month and a \$14 million estate tax payment received last month and more than \$6 million of unexpected IMR payments.

(In Millions of Dollars)	<u>Last Month</u>	<u>Current Month</u>	<u>Total</u>
Total Reported Variance:	\$32.9	\$27.9	\$60.8
Special Factors			
Audit payment		\$22.0	\$22.0
Large estate payment	\$14.0		\$14.0
Late IMR payments	\$2.0	\$4.5	\$6.5
Variance-w/o special factors	\$16.9	\$1.4	\$18.3

These special factors are unrelated to the level of economic activity, thus the revenue generated from them should not be expected to be repeated. Although most of the revenue from these special factors likely represents a one-time gain. Special factors aside, collections have exceeded the forecast by \$18.3 in the last two months due to a strong economy and higher than expected estate tax payments and lottery General Fund transfers.

Revenue act collections in the April 11- May 10 collection period (primarily reflecting March 1997 business activity of monthly taxpayers and January - March activity of quarterly filers) were strong, with collections 9.3 percent above the year-ago level. Excluding the impact of legislation and the large audit payment, collections growth was still a healthy 6.5 percent. This follows last month's 9.4 percent increase and a 12 percent increase two months ago. Revenue Act growth for the first quarter as a whole was 9.0 percent reflecting very strong economic activity. Nationally, first quarter real GDP growth was a sizzling 5.6 percent, the strongest increase since 1987 and about double what was expected in March. Retail sales and consumer confidence were also high nationally. At the state level, the unemployment rate continued to decline and state income and employment growth also likely exceeded the March forecast. The torrid pace of economic activity in the first quarter is expected to slow to a more sustainable level for the remainder of the year. Some evidence of slowing is already apparent with weaker April retail sales nationally and a slowing in the use of consumer credit. Although the state's economy and revenue growth are also likely to decelerate from the strong pace of the first quarter, they should remain healthy for the remainder of the year.

Preliminary data on taxes paid during the April 11- May 10 collection period shows solid growth in most sectors of the economy. The manufacturing, heavy construction, building materials and hardware and furniture and household appliance sectors appeared especially strong. Taxes paid by food stores, auto dealers and gas stations along with wholesalers were somewhat below average based on preliminary data for March activity.

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$7.1 million above the forecast in April. Higher than expected estate tax receipts and IMR payments more than offset weaker than expected cigarette, liquor and real estate excise collections. Cumulatively, non Revenue Act sources are \$21.7 million more than expected, primarily due to much higher than expected estate tax payments and unexpected IMR payments the last two months. Estate tax revenue has been very strong the past year fueled in part by a strong equities market. Although the majority of the estate tax variance is due to a payment last month from a very large estate, even without this payment, estate tax revenue is \$4.7 million above the March forecast. IMR tax payments have averaged about \$800,000 per month over the last two years. A surge in payments of more than \$8 million the last two months, primarily reflecting late payments, some as much as two years old, is the primary reason for the large variance in the "other" revenue category.

Real estate activity, although below the estimate for the month, is slightly above for forecast cumulative since the March forecast. Growth of activity based on closing reported by counties in March has slowed to 5 percent from 29.1 percent in February and 21.9 percent in January. The number of taxable transaction declined 2.6 percent in March, and are 3.2 percent below the year-ago level for in the first quarter of 1997. Real estate activity is still strong in the Puget Sound area and in Clark county, but appears weak on average in the rest of the state. For the first three months of the year, real estate excise activity is up 28.7 percent in King, Snohomish, Pierce and Clark counties but is down 5.8 percent from the year-ago level for the remainder of the state. This divergence may continue as strong job growth in the King county may continue to fuel a

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strong real estate market, offsetting any increase in interest rates, while an up-tick in interest rates may continue to weaken activity in less rapidly growing areas.

Other agencies' collections were \$2.3 million above the forecast in April. Department of Licensing's General Fund collections were \$0.2 million more than anticipated. Cumulative their General Fund collections are \$1.0 million above expectations. The lottery's transfer to the General Fund was \$2.1 million above the estimate for the month, and is the same cumulatively since the last forecast. The attached Table 1 provides a comparison of collections with the March forecast for the April 11-May 10 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS:cg

Attachments

TABLE 1
Revenue Collection Report
May 10, 1997 Collection Report - Based on the March 1997 Forecast
1995-97 Biennium - Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
April 11 - May 10, 1997				
Department of Revenue-Total	\$692,635	\$718,207	\$25,572	3.7%
Revenue Act** (1)	614,050	632,513	18,463	3.0%
Non-Revenue Act(2)	78,585	85,694	7,109	9.0%
Liquor Sales/Liter	5,934	5,758	(176)	-3.0%
Cigarette	6,170	5,112	(1,057)	-17.1%
Property (State School Levy)	32,416	32,262	(154)	-0.5%
Estate	2,561	6,155	3,594	140.3%
Real Estate Excise	23,941	23,120	(821)	-3.4%
Timber (state share)	0	0	0	NA
Other	7,563	13,287	5,724	75.7%
Department of Licensing (2)	39,142	39,359	217	0.6%
Lottery (2)	8,562	10,668	2,106	24.6%
Total General Fund-State***	\$740,339	\$768,234	\$27,895	3.8%
Cumulative Variance Since the March Forecast (Mar 11- May 10, 1997)3				
Department of Revenue-Total	\$1,209,257	1,266,920	57,663	4.8%
Revenue Act** (3)	1,079,632	1,115,618	35,985	3.3%
Non-Revenue Act(4)	129,624	151,302	21,678	16.7%
Liquor Sales/Liter	11,467	11,019	(448)	-3.9%
Cigarette	12,516	11,150	(1,366)	-10.9%
Property (State School Levy)	44,119	41,857	(2,262)	-5.1%
Estate	6,734	25,459	18,725	278.1%
Real Estate Excise	43,454	43,863	409	0.9%
Timber (state share)	0	0	0	NA
Other	11,334	17,953	6,619	58.4%
Department of Licensing (4)	74,642	75,628	986	1.3%
Lottery (4)	13,961	16,063	2,101	15.1%
Total General Fund-State***	\$1,297,860	\$1,358,611	\$60,751	4.7%

1 Collections April 11 - May 10, 1997. Collections primarily reflect March 1997 activity of monthly taxpayers and the January-March activity of quarterly filers.

2 April 1-30, 1997 collections.

3 Cumulative collections, estimates and variance since the March forecast; (March 11 - May 10, 1997 & revisions to history.)

4 Cumulative collections, estimates and variance since the March forecast; (March - April 1997 and revisions to history.)

* Based on the March 1997 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility and tobacco products taxes, as well as penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from major collecting agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 99% of total General Fund-State

Table 2
April 10, 1997 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
March 11 - April 10 1997				
Department of Revenue-Total	\$548,713	\$548,713	(\$0)	0.0%
Revenue Act (1)	483,105	483,105	(0)	0.0%
Non-Revenue Act(2)	65,608	65,608	(0)	0.0%
Liquor Sales/Liter	5,262	5,262	(0)	0.0%
Cigarette	6,038	6,038	0	0.0%
Property (State School Levy)	9,595	9,595	(0)	0.0%
Estate	19,304	19,304	0	0.0%
Real Estate Excise	20,743	20,743	0	0.0%
Timber (state share)	0	0	0	NA
Other	4,666	4,666	0	0.0%
Department of Licensing (2)	36,269	36,269	0	0.0%
Lottery (2)	5,395	5,395	(0)	0.0%
Total General Fund-State***	\$590,377	\$590,377	(\$0)	0.0%
Cumulative Variance: fiscal 1997				
Department of Revenue-Total	5,945,673	5,945,673	(\$0)	0.0%
Revenue Act (3)	4,933,114	4,933,114	(0)	0.0%
Non-Revenue Act(4)	1,012,559	1,012,559	0	0.0%
Liquor Sales/Liter	56,588	56,588	0	0.0%
Cigarette	52,581	52,581	(0)	0.0%
Property (State School Levy)	536,466	536,466	(0)	0.0%
Estate	73,205	73,205	0	0.0%
Real Estate Excise	202,443	202,443	(0)	0.0%
Timber (state share)	20,122	20,122	(0)	0.0%
Other	71,155	71,155	(0)	0.0%
Department of Licensing (4)	316,757	316,757	(0)	0.0%
Lottery (4)	67,555	67,555	0	0.0%
Total General Fund-State***	\$6,329,985	\$6,329,985	\$0	0.0%

P-Preliminary. Reported in the April 10, 1997 collection report.

R Revised data.

1 Collections March 11 - April 10, 1997. Collections primarily reflect February 1997 activity of monthly taxpayers.

2 March 1-31, 1997 collections.

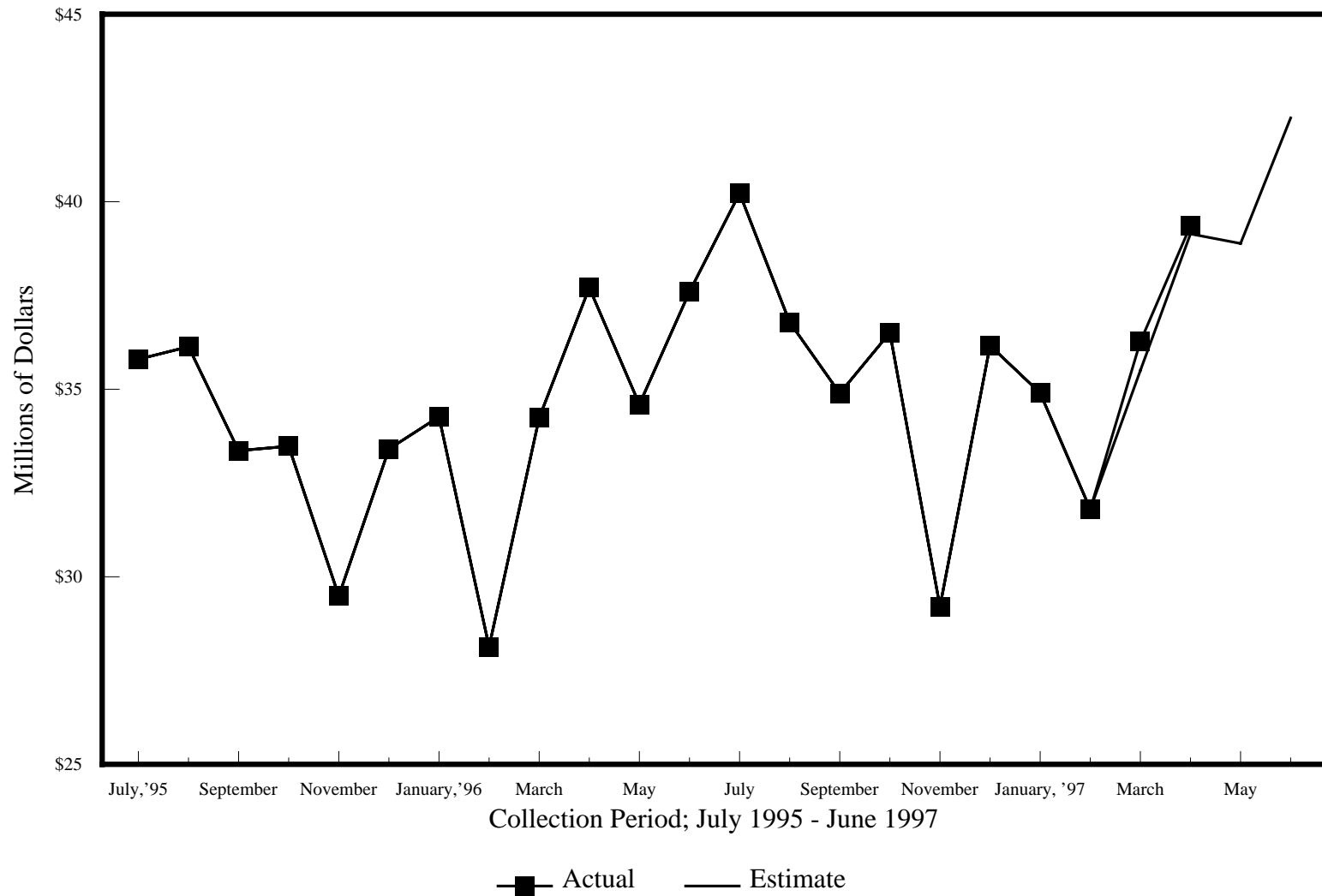
3 Cumulative variance for fiscal 1997: July 11 - April 10, 1997, based on the 3/97 forecast.

4 Cumulative variance: July - March 1997, based on the 3/97 forecast

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

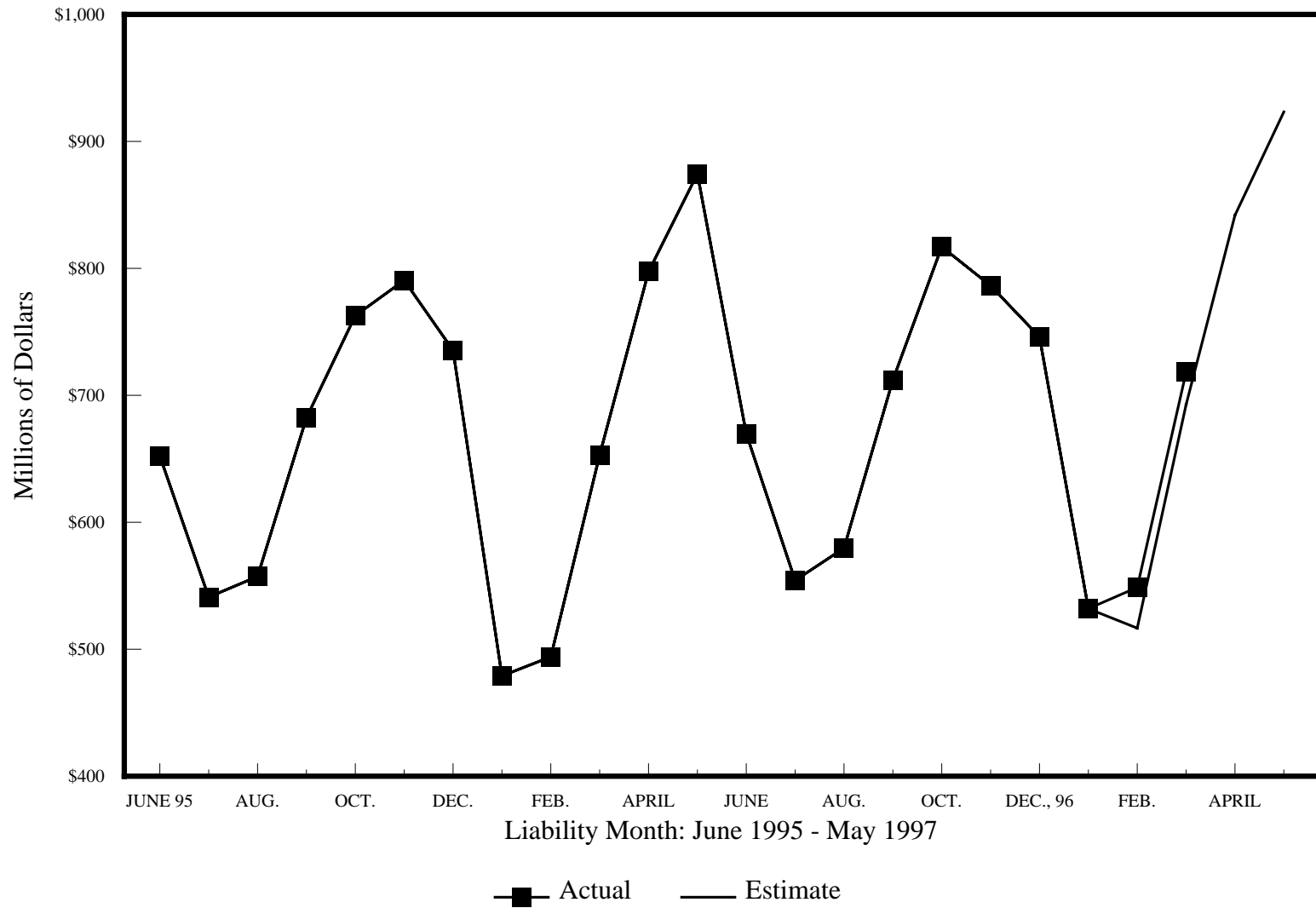
Dept. of Licensing: General Fund - Actual Vs. Estimate

1995-97 Biennium - 3/97 Forecast



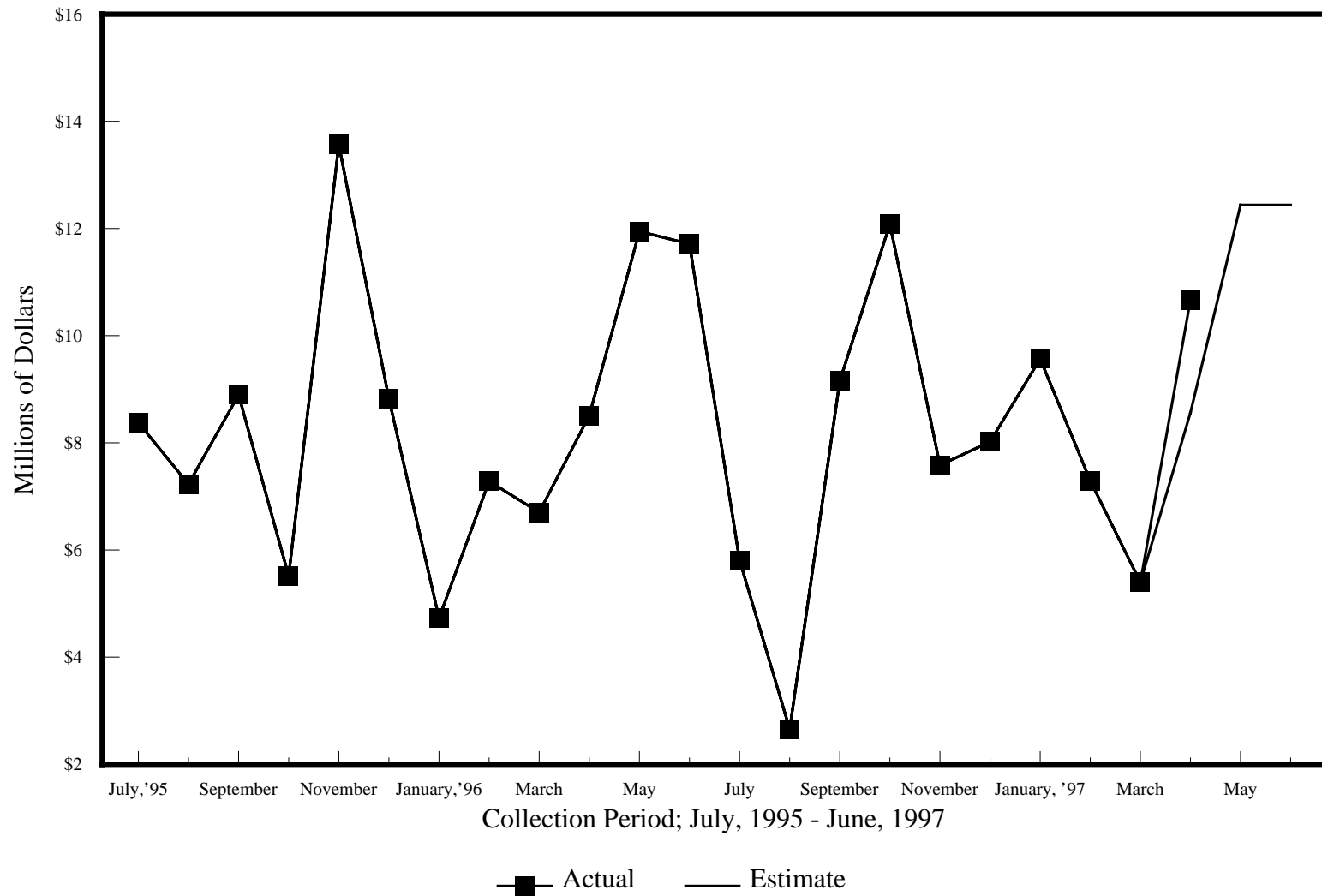
Department of Revenue - General Fund: Actual Vs. Estimate

1995-97 Biennium - 3/97 Forecast



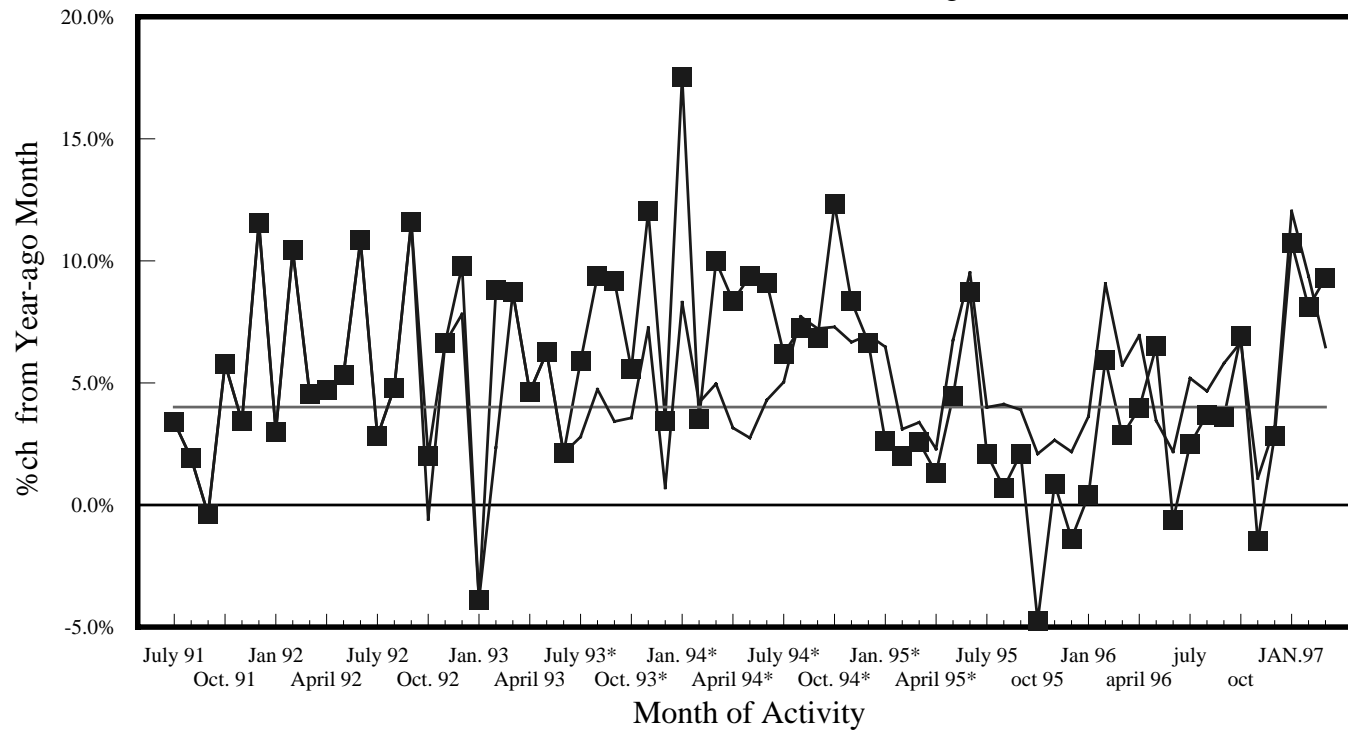
Lottery General Fund Transfers: Actual Vs. Estimate

1995-97 Biennium - 3/97 Forecast



Revenue Act Net Collection Growth

Year over Year Percent Change



■ %CH from year-ago month

— Ave. Growth for fy 94: 4.0% (Adj.for Legislation)

— % Change from year-ago, adjusted for large audits & legislation

* Beginning July 1993 includes impact of new legislation, 1993 session;

beginning 7/94 includes impact of 1994 legislation; beginning 7/95 includes impact of 1995 legislation.